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SUBJECT: SECOND MEETING OF ECONOMIC AND ENERGY JOINT COORDINATION
COMMITTEE

REF: BAGHDAD 00399

¶1. (SBU) Summary. Iraqi Deputy Prime Minister (DPM) Barham Salih and EMIN Ambassador Marc Wall co-chaired the second Economic and Energy Joint Coordination Committee (JCC) under the Strategic Framework Agreement (SFA) on March 31. This follows the initial kick-off meeting held on February 12. The five Working Group co-chairs presented draft work plans and lists of short and long term priorities. DPM Salih continues to put his personal energy and enthusiasm behind this JCC. He supported a meeting of the Dialogue on Economic Cooperation in late June and proposed the next JCC for July. Going beyond the SFA discussions, Salih reiterated his displeasure with current oil policies and said the GOI has made a "strategic breakthrough" in recognizing that Iraq's petroleum sector needed outside assistance and investment. End Summary.

Second SFA Joint Committee:
Economic and Energy Cooperation

¶2. (SBU) Deputy Prime Minister (DPM) Barham Salih and EMIN/CETI Ambassador Marc Wall co-chaired the second meeting of the Joint Economic and Energy Coordination Committee under the Strategic Framework Agreement (SFA) on March 31. The five working group (WG) co-chairs presented ongoing work plans (either final or in draft form) and priorities both short-term and long-term. EMIN urged Working Groups (WG) to develop practical steps and solutions, going beyond identifying problems. Political will for reform would also be necessary as the GOI continues its development on many fronts. EMIN also reminded WGs that while the SFA is a bilateral agreement, we must not lose sight on involving multilateral partners. DPM Salih continues to put his personal energy and enthusiasm behind this JCC, ensuring Government of Iraq participation and follow-up. He requested that all WGs finalize bilateral work plans by mid-April and proposed the next JCC meeting be held in July. During the meeting, DPM Salih passed to EMIN a draft of "Iraq's Economic Vision for 2020" in the spirit of bilateral exchange of information. Salih described it as a long term vision for Iraq for consideration by the Iraqi Cabinet, World Bank, and members of the International Compact for Iraq. Post is translating the document.

Strategic Breakthrough on Oil

¶3. (SBU) DPM Salih stated that it was clear that Iraq's present oil policies were a "total failure and one of the most difficult problems we face today." He said that Iraq has made a "strategic breakthrough" in acknowledging that it cannot develop its resources with Iraqi talent alone. Following the February Oil Policy Review Symposium, a PM-led committee (including Salih and the Ministers of Finance and Planning) was established to implement changes to the Ministry of Oil's operations. The Council of Ministers (CoM) granted the committee full authorization to take action on the

symposium's recommendations with no additional CoM review required. Barham noted a broad recognition of the importance of international oil company (IOC) assistance, including with the financing of petroleum sector projects and investment. Barham said he looked forward to actively engaging with the U.S. side and that, at some unspecified future time, wanted to discuss the possibility of "real opportunities" for a short list of U.S. and other IOCs. (Note: A Shell company executive, in Iraq to work on details of the flared QShell company executive, in Iraq to work on details of the flared gas project, told us that, during an April 1 meeting, Barham said he would be meeting with the PM and Oil Minister Sharistani shortly to discuss a possible direct bidding approach to certain companies. Barham assured the executive that Shell would be among the companies. Market Sensitive. End Note.)

Oil and Gas Working Group

14. (U) Since the Iraqi co-chair and Oil Ministry representatives were not present, the U.S. Oil and Gas Working Group co-chair provided an update on the working group's activity, pledging to cooperate on training and technical support. Other key goals include assisting the GOI to increase oil production, establish the Iraq National Oil Company and Supreme Oil and Gas Council, increase participation in the Extractive Industry Transparency Initiative, and increase downstream capacity (refining oil and gas). Short-term deliverables include training 17 representatives from MoO's Petroleum Contracts and Licensing Directorate and others in contracts, providing technical advice on Iraq's petroleum sector, assisting the GOI to provide oil and gas infrastructure support, and training in leasing and tendering. Long-term deliverables include facilitating GOI efforts in procurement assessment; a publicly available Petroleum Report; data monitoring and control center

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assistance and international best practices in petroleum reservoir, project and process management; hydrocarbon pollution reduction.

Public Financial Management and Financial Issues Working Group

15. (SBU) The Public Financial Management and Financial Issues WG pledged to cooperate on developing a medium-term budget framework, bank capacity building, restructuring state-owned banks, and modernizing non-cash payment systems. The Finance WG has a long list (six pages) of ongoing and potential activities under the JCC. Under Public Resource Management, these include aligning public finance with sound international practices, including budget transparency, international accounting standards, and tax policy review. Banking initiatives including restructuring of state-owned banks and strengthening the pension and social safety net system.

16. (SBU) A comment by the DPM about the Central Bank not wanting to buy T-bills and take an accommodative monetary stance provoked a discussion on how the private market for T-bills could develop in Iraq. The CBI's recent lowering of its reference interest rate and reserve requirements has freed up bank liquidity that is looking for a good rate of return. We noted that the USG has offered to provide technical assistance in this area through the existing Public Finance Management Action Group (PFMAG) of the WG has met to link ongoing activities to Iraqi priorities contained in the Iraq National Development Strategy and the International Compact with Iraq.

Electricity - New Projects Working Group

17. (SBU) The Iraqi Co-Chair Salaam Kazaz, Deputy Minister of Electricity, noted the challenge of sufficient electric generation to meet demand and said the GE and Siemens contracts were the "backbone" to solving this problem. The Electricity WG plans to draft a modern electricity law and a regulatory framework, and will initiate a technical assistance program that will embed foreign technical experts within the New Projects Division at the Ministry of Electricity for twelve months (under existing IRRF 2008 obligated

funds). The USG co-chair stated that Iraq's GE and Siemens gas turbine deals together constituted the single largest generation asset purchase "anytime, anywhere," requiring this group to concentrate its work on facilitating the planning for the construction and commissioning of the power plants at which these generators will be installed. Other short-term deliverables include promotion of a customer and technical standards-based (semi) autonomous regulatory agency; capacity building of a technical assistance program within the Ministry administered by International Relief and Development; assisting the GOI to procure financing for gas turbines; and broadening exchanges between GOI officials with USG counterparts.

Industry and Private Sector Development Working Group

¶8. (SBU) Dr. Sami Al-Araji will continue to be the Iraqi co-chair of this group in his new role as National Investment Commission (NIC) Chairman. The Industry and Private Sector Development WG's short term goals include a coordinated U.S.-Iraqi effort to increase World Bank engagement in Iraq; continued support of the Task Force for Business Stability Operations (TFBSO) for investment promotion; state-owned enterprise reform; continued USAID support for NIC Qstate-owned enterprise reform; continued USAID support for NIC capacity development; promotion of small-and-medium enterprises; and investment climate regulatory reform.

Trade and Investment Working Group

¶9. (SBU) The Trade and Investment WG's draft work plan emphasized the need for continued USG support to the National and Provincial Investment Commissions and Iraq's World Trade Organization (WTO) accession process, as well as increasing business-to-business contacts through the U.S.-Iraq Business Dialogues. Short-term goals include Iraq's participation in the Third WTO Working Party Meeting in June, expediting visa processing of Iraq business visitors and updating the Investor Roadmap for use at the Investment Conference in London on April 30. Trade Minister Abdulhadi Al-Hamiri will be the Iraqi Co-chair of this group.

Dialogue on Economic Cooperation, Qualified Investment Zones

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¶10. (SBU) The Trade and Investment WG's most important deliverable will be a Dialogue on Economic Cooperation (DEC) possibly in June, which we hope would include a robust private sector component. Salih endorsed the DEC and also strongly encouraged the Trade and Investment WG to examine the possibilities of setting up Qualified Investment Zones (QIZ) in Iraq. (Comment: We will meet with Salih soon to learn more about his objectives in this regard, and whether he is really interested in a QIZ -- which would operate under the U.S.-Israel Free Trade Agreement -- or something more along the lines of the Reconstruction Opportunity Zones in Afghanistan and Pakistan). Salih also noted the recent signing of an Iraqi-Turkey strategic economic agreement and welcomed U.S. facilitation in cooperation between the two countries.

SFA Documents and Information

¶11. (SBU) SFA documents and information are now available to all OpenNet users in Sharepoint at the following link (click on SFA tab).

<http://collaborate.baghdad.state.gov/Pages/Default.aspx>

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